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COMMITTEE ON NEBRASKA RETIREMENT SYSTEMS
March 23, 2005
Annual Reports

Nebraska Investment Council - Annual Report

The Committee on Nebraska Retirement Systems met at 12:15 p.m. on Wednesday, March 23, 2005, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of annual reports on the Nebraska Investment Council and the Nebraska Public Employees Retirement Systems. Senators present: Elaine Stuhr, Chairperson; John Synowiecki, Vice Chairperson; Philip Erdman; and Marian Price. Senators absent: Patrick Bourne; and Don Pederson.

SENATOR STUHR: We'll begin with the report from the Nebraska Investment Council, Carol Kontor. This is not actually an official hearing but it is a report, so thank you for coming.

CAROL KONTOR: (Exhibit 1) Thank you. And I am remembering to spell my name, report or not.

SENATOR STUHR: Right.

CAROL KONTOR: My name is Carol Kontor, K-o-n-t-o-r, which I frequently forget to do, and I'm State Investment Officer and am pleased to be here today to present, on behalf of the Nebraska Investment Council, our annual report for 2004. And please note that the numbers are as of the calendar year 2004. You should have there at your place...I think everyone would have a book. The format is the same as last year. And if you wouldn't mind just opening to page 1, the contents. And I'll spend a little bit of time on Sections I and II, kind of an introduction, executive summary. Would spend the majority of my time on Sections III and IV because those are the retirement funds, and then a little bit of time just in terms of other pools that we are responsible for, Sections VII, VIII, and IX, and any supplemental information that we have time for at the end. So, then on page 3 is the members of the Nebraska Investment Council. It's the same picture that you saw last year. Fortunately we have had no turnover. We've had a very stable council, and it's an excellent council. We're also really fortunate to have Ken Green as our chairman of the council. He is

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really outstanding, very capable, and respected by everyone. These people do give a considerable amount of time, and we are fortunate...Nebraska is very fortunate to have people of this caliber sitting on the council for us. On page 5, is just a summary of...I do a little two-page report there, just some highlights of everything. It was...2004 was a good year. The stock market was up, the S & P was up about 11 percent. International equity, because of the weakening dollar, the international stocks did even better. The fed was tightening during the year, so the fed funds rate went from a low of 1 percent in '03 to 2.25 percent by the end of '04, and then as of yesterday it's now at 2.75 percent. Longer rates have stayed relatively flat. The highlight section I will address as we get into the particular sections; do the performance on page 6, I'll hit performance in the relevant section. Just a moment on where I discuss, there in the conclusions, that for all of these portfolios what we're looking at in each case is what are the objectives of the portfolio. And so the asset allocation, the strategy for the defined benefit plans will be quite different than it is in the say, for example, operating investment pool. So we base our decisions on the investment objectives within the portfolio. But in all cases, as in my closing sentence there that I had last year, as well: We are committed to serving the owners of the assets by fulfilling our duties with integrity, prudence, and hard work. On page 7 then is an executive summary of the funds, for which the council is responsible for in total. You'll see there the pie chart at the top: 54 percent are the defined benefits plans. We group them into seven broad categories, and then that's where we broke it down into 21--little smaller--and then there could be many entities within each one of those. But we have three defined benefit plans. The next category we have there is the state and county retirement plans and the deferred comp. We have the operating investment pool. That has the general fund of the state; it has all of the agency money. That's a sizeable pool of money. The Nebraska Educational Savings Plan Trust; that's the college savings plan. And we have seven endowments: the healthcare endowment, and we have five miscellaneous trusts. All of the assets are custodied at either...State Street Bank is the primary custodian for everything except the closed Hartford fund for the deferred comp prior to 1997. Those assets are custodied by Hartford. And then in the college savings plan, assets are custodied

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at Union Bank and at AIM. Other than that, and certainly for all of the retirement assets, those assets are custodied at State Street, a third party custodian.

SENATOR STUHR: Okay, Carol, would it be all right if any of the committee and also our actuary just asked questions as you are going through it?

CAROL KONTOR: I think that's best.

SENATOR STUHR: You know,...

CAROL KONTOR: Sure.

SENATOR STUHR: ...rather than hold the question.

CAROL KONTOR: Right, yeah. Please, ask questions as you have any. Yes, I would be happy to do it that way.

SENATOR STUHR: Yes. Okay, thank you.

CAROL KONTOR: And particularly that may come up as we get into some of the more detail. Page 8 begins to have some of the particulars. It's a transaction summary for the year and then, actually, since 1996. If you look across the columns, we start with the beginning balance, then net contributions. So that would be contributions in, minus distributions out, minus expenses. Investment results, and then the closing balance. So you'll see there in the bold line there, 2004 totals. We began the year with \$8.9 billion. Net contributions, \$753 million. Investment results...so we added from the investments \$891 million, and ended the year at \$10.5 billion. So we cross the \$10 billion mark, and we take that responsibility very seriously. You'll see in the net contributions, you'll see, like in the defined benefit plans, it's really an external cash flow flat situation. Pretty much the contributions going out are equaling the distributions...or contributions coming in are equaling the distributions going out, with a net cash flow of...external cash flow of minus \$9 million. So the investment result, we added to the defined benefit plans during the year from investment, \$603 million, so we ended the year at \$5.7 billion. Continue with the net contributions, you'll see that the biggest contributors from external sources, the operating investment pool,

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\$447 million, and the college savings plan grew very significantly. It's interesting that...I took...if you...see, at the beginning of 1996, we began 1996 with \$3.7 billion. And there was...then the state and county plans were transferred to the responsibility of the Nebraska Investment Council. That was another \$.8 billion. But if I add up all of the contributions for this nine years, the net contributions for those nine years was \$1.5 billion. The investment results for those nine years was \$4.5 billion. So certainly the significant growth is coming from the investments. That overviews all of the plans, and I'll start on the retirement funds unless there are any questions at this point.

SENATOR STUHR: Again, Carol, the operating investment pool, the definition of that on page 8, you know,...

CAROL KONTOR: Yes.

SENATOR STUHR: ...is just all of the investments?

CAROL KONTOR: No. The operating investment pool is primarily agency money. If you would look at the fifth tab, just flip over there real quickly, and then I'm on page 29. Because it is a sizeable portfolio, you'll see there that state agencies make up 80 percent of that money. So that would be like Roads, Health and Human Services, all of the state agencies. The general fund is 16 percent. And then the TDOA, that's the Time Deposit Open Account program, that's by statute we have to make available to financial intuitions; state money, up to a million dollars per financial institution. So this has a very different structure. It is...the primary thing is to provide the liquidity. So if the Department of Roads has...now they are going to pay on some contract, they may need \$50 million Friday, or Health and Human Services gets their contribution from the federal government; we may get \$40 million. So it has significant cash flow and so liquidity is a primary objective. Preservation of principal is a primary objective. There is no equities in this because this is a short-term objective, rather than in our defined benefit where we have a long-term investment horizon.

SENATOR STUHR: Okay, thank you.

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CAROL KONTOR: Then going to page 9 which begins the...now, this is the defined benefit plans, and as you know that's three plans: the school, the state patrol, and the judges. You can see there on page 9 that the school makes up 94 percent of the assets. Turning to page 10, and we show here then, the first thing, the format is the same in each section. We started out with a transaction summary. We started out with a beginning balance for each one of the defined benefit plans. We show the net contributions; they were all modestly negative for the year. Investment results, for example the investments contributed \$569 million to the school plan during the year. And so this breaks it down into three plans. That bold line that you see there ending in that \$5.658 billion, that's then what came from the executive summary on that other page. And then how do we have these investments...how are we managing these assets? If you look on page 11, the pie chart on the right, that shows the asset allocation which is, of course, a critical decision in the investments. You'll see that it differs from the one on the left, the pie chart on the left, in that in 2004 we allocated 5 percent to real estate. Now that's a target 5 percent. We're not at that. We're funding that allocation based on market prices. When the real estate seems to be fully priced, we reduce the amount that we're allocating to that. So that may take us a year or two to fully fund that. We did that. It provides a good diversification and it has a higher expected rate of return than the bonds, the fixed income. So you'll notice we got that 5 percent for real estate, private and public, from the fixed income. We reduced the fixed income by 5 percent and added that to real estate. Another significant decision that the council has to deal with is once we make the asset allocation, how much should we have in active versus passive? And that then, we're approaching that, we're formalizing that process from what we're calling a risk budgeting policy. In other words, how much active risk are we wanting to take within in each asset class? This topic is a two-hour topic by itself. Let me just say that that's how we manage risk. We have a risk budgeting policy where we have said that the total fund will be within .75 percent to 1.5 percent of the benchmark. And that's one standard deviation of the benchmark return. So that's how we're managing risk and, hopefully of comfort to you, that we are not wanting to swing the ball outside the park, but rather we would like singles and doubles, steady

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year after year. In the middle of the page we talk about performance summary. And there are two ways to measure your performance: an absolute return and a relative return. The absolute return is just what is the number. And as you'll see there, for the year the absolute return was 11.4 percent for the one year, 2004. On an absolute basis, that's a good number. We compare that to the actuarial assumption for the rate of return of 8 percent, so for 2004 we had an actuarial gain because the actual performance was greater than the assumed actuarial number. The other way to evaluate performance is relative. And you will see there to the benchmark for the year, we were 30 basis points under our benchmark. And, of course, we spent a great deal of time analyzing why that is, and I will be showing you that in the next page. It's a couple of active managers. Since June of '83, that last bar there, the absolute rate of return for 21 years was 10.5 percent. Again, on an absolute basis that is a good return relative to the actuarial assumption. If you go over to page 12, you'll see our equities for the year. I will focus primarily I guess on '04, but you can see the longer term...which are really the more important ones, but this is a 2004 report. Our equities lagged the benchmark, but lagged Wilshire 5000, and I'll be showing you the particulars on that. The International Equity also lagged. The fixed income outperformed the benchmarks. An important thing that the council did in '04 was we changed the benchmark for fixed income. And it is subtle, but it is very significant in terms of the risk in the portfolio. The benchmark for a long time had been the Citigroup large pension fund index, which is a very long index. For a number of reasons, we evaluated what's the role of bonds within the portfolio, what do we think about bonds in terms of their contribution. And we changed the benchmark to the Lehman U.S. Universal. It's a shorter benchmark which is very significant. We changed it...the duration goes from about 7 percent down to about 4.5, which is very significant in terms of the volatility that the bonds will experience in a rising interest rate environment. We think it is a better representation of the role of the bonds within the portfolio. On page 13 you'll see how each asset class is managed. And if you look there under the manager performance, the first one there, Alliance Capital, had a return of 5.5 percent. Its benchmark is 6.6. That was a major drag on our performance. Since this time we have...it was a major drag because they were our largest single active

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manager. So we had reduced them in '04, at the beginning of '04, we reduced them again. We cut their amount under management in half. We also changed the mandate. They had been a large cap growth manager. Now they are a blended manager, with some growth and some value, and we're watching them very closely. Husic, you know, if you look down at the last one there under the U.S. equities, that shows the kind of dilemma that we could be faced with. The one-year performance was awful; the ten-year performance is excellent. We did decide to terminate Husic. We can live with the short-term because we are interested in the long-term. The other thing we care about...well, and actually, more importantly than recent performance is the managers and are they deviating from their style, from their process. And they have shown that they are kind of flipping back and forth between growth and value. They have a lot of new people on. We lost confidence that those older numbers were going to be repeated and we...our best thought was that the probability was higher that they would continue to underperform. So we have terminated Husic. They were also a drag on performance. And I'm just picking out...I should be noting some of the good ones, too. Dimensional Fund Advisor was certainly very positive during the year. Looking at international, T. Rowe Price was a drag on performance, and we also have reduced the amount that they have under management. We have the managers in. I've made a number of trips to different international equity managers. We have a council meeting next Tuesday and this issue of T. Rowe is uppermost on that agenda. I think you'll be seeing other changes on that one, as well. Page 14 is our fixed income. And then the real estate. We did hire two real estate managers, Goldman Sachs and Heitman. They were hired during the year, so we don't...we need a full year of performance before we report it. So we don't have any numbers there, but we're hopeful that they will be a good addition to our stable of managers. Page 15 shows the funded status of the plans. I think that you've seen all of this. It's based on actuarial value of assets and the actuarial value of the liabilities. So certainly the assets here are going to be a different number than what you see on the previous pages because those are market values. Interestingly, I looked from 1998 to 2004; assets grew 66 percent and liabilities grew 136 percent. So that's a challenge. Any questions on the defined benefit plans before I go into the state and county?

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DONN JONES: Carol, do you have anywhere the balances that each of the managers manages? You've got the returns, but does that show up?

CAROL KONTOR: It does not in the report. I have it right here. I can surely give you a copy of this, added in the future, if the committee would like to see it.

DONN JONES: It seems to be of interest in the sense that the returns are great, but then the proportion of money in each category is useful, too.

CAROL KONTOR: Sure. I would be happy to add that for next year.

DONN JONES: Okay.

CAROL KONTOR: Any other questions on this part? Okay. Then on page 17, the state and the county and the deferred comp. You will see there on the left pie chart, the cash balance is in the gold. That's...the participants there do not select the asset allocation nor the investment funds. The defined contribution is 66 percent of the state and county retirement assets. There the participants are selecting, so then in effect they are determining their asset allocation and their investment funds. The pie chart on the right, that's the voluntary state deferred comp plan. As I say, Hartford had been managing that until 1997; that was changed to the council. That Hartford fund is now a closed pool of assets. New participants cannot go into that. Page 18, the transaction summary. And it shows the breakdown of the assets in this group, in this group of three. Certainly, the defined contribution, state deferred comp, that's the lion's share of the money there with \$891 million. The investment options are the same for the defined contribution retirement...those state and county employees that stayed with the defined contribution rather than electing the cash balance benefit, and those are the same as what is offered to the state deferred comp people. The cash balance benefit there, you'll see \$413 million, and a little bit of Hartford. Page 19 shows the investment options. In addition to individual options, there are premixed funds. And certainly the largest single investment vehicle being used is the moderate premixed. That's because

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in large part that's a...was a default fund for a number of changes. And I know Anna and her group worked very hard to educate the people, but there seems to be a lot of inertia in terms of selecting the investments. And page 20, you'll see there that here are the premixes. You'll see there the left pie chart, that's a 25/75; that's the conservative. Moderate premixed, that's the 50/50 stocks and bonds. Aggressive is 75/25. And you can see there the performance. Over on page 21, you'll see the performance of those premixes. Interestingly, and as one would expect, if you look at the one-year number, the aggressive certainly outperformed the conservative. If you look at the five-year, the aggressive underperformed the conservative, and that's just reflecting how much stock you have in that, in the different choices. Certainly, for these retirement plans we have a very long horizon and hopefully that's the way all the people are looking at it, as well. The cash balance benefit is on page 22 for those state and county employees that selected that. In 2004 we adopted the long-term strategy for that and we selected...this is an asset...after an asset liability study, we said we would mirror the defined benefit plan investments. So we began that transition in '04; it will be completed in '05. You'll see there at the bottom of the page, the cash balance benefit for 2004 earned 11.0 percent. That's what the assets earned. The crediting rate the participants are credited the greater of, 5 percent, or the federal midterm rate plus 150 basis points, which for the year was 5.2. So there was a gain in the assets relative to what was credited to participants. Perhaps the PERB will decide to make a dividend again, which is what they did in '04. Pages 23 and 24 there, we're just implementing the long-term strategy to mirror the defined benefit plans. Page 25 is Hartford. We don't add any new funds. The council has the responsibility to be monitoring these funds, and we did require that Hartford replace the Putnum International Opportunities fund with, you'll see there, the EuroPacific Growth. It had underperformed. We were also concerned about management, so we were not comfortable...we were not comfortable with the future of that fund. And then that's Hartford and that takes me through all that. Any questions on the state and county, or I guess the retirement plans, because this is kind of finishing my section on the retirement? Okay, I'll just go quickly through a couple of other things. The operating investment pool we talked about. The next tab,

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the educational savings plan. These are things that...other pools of money that the council is responsible for. On that Nebraska Educational Savings Plan Trust, there are two series. There is the college savings plan of Nebraska and then there is the AIM series. And someday...sometimes this can be a good reference. There is a lot of choices here, whether you want a direct or advisor, whether you want class A, B, C shares, et cetera. So that's all explained in here. General endowments: There are seven endowments that are managed similarly, so we group them for investment purposes. The health care endowment: I might just spend a minute on this one because U.S. senators may hear about this. This is the...health care endowment is comprised of two trusts. The tobacco money goes into this, as well as the Medicaid IGT payments. And you know, that's, at this time, the federal government is making IGT, the Intergovernmental Transfer Funds...President Bush or Congress had said maybe we should stop these. We're never quite sure exactly what the future cash flow will be on these, but at this point it's a sizeable portfolio. It's you'll see there at the bottom, \$309 million. And this is the one that I think U.S. senators then make a decision how much is to be distributed from this each year for health-related grants. The next section, miscellaneous trusts, we have some various trusts in here. Because in the state funds, we had looked at the operating investment pool. That's for liquidity and safety of principal. Some state entities have endowment-type money or trust money. And so where we want a different asset allocation for that money and that's why it will appear here, with a different asset allocation, different investment structure. Following that, in the supplemental information we have some policies. I think you've seen...I think I sent it to everyone...or I sent it to Senator Stuhr and Kathy. I know the updates on the policy, we'll try to keep you posted on those. We're trying to formalize some of our processes, and by policy. Page 72 shows our staff. There is myself and then we have six other people. And actually our internal auditor is half-time so there is really, in total, there's six and a half of us on staff. Our investment consultant is Ennis Knupp, the custodians we talked about. Page 74 shows the expenses. Now this is all of the...well, you'll see there, the internal costs. That's the salaries and other fixed costs that we need up there in terms of internal cost. Bloomberg we use for investment purposes; BondEdge for

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managing the operating investment pool. Then the asset management, those are the managers there. Other services: State Street; Wilshire who had been our consultant...there is kind of a stub year of fees to them; and then a stub year for Ennis Knupp because we changed to Ennis Knupp midyear. So that shows that our expenses for the year were \$2.3 million or .16 percent of assets--16 basis points. You'll see there, it's one basis point higher than previously. But actually it's flat. What I included here was State Street. You'll see there, a little superscript there of 3. State Street's portion of the securities lending I included as a fee to State Street, and that had not been included before. So otherwise basically our investments are flat...I mean our expenses...excuse me, our expenses are flat. And then just some other information. Any questions on any of it?

SENATOR STUHR: Are there any questions? Thank you very much. Jason.

JASON HAYES: For the defined contribution plans, do you have a rate, if you looked at all of them together, as to what the return was on the assets?

CAROL KONTOR: We don't. We could get that. I'm not sure what that is going to tell us because it's all just dependent on how much people...what they are picking. But we could get that if that would be of interest. Would you like to see that? Okay. It would be...I understand it would be of interest. It wouldn't change what we might be doing in terms of the investments because in that case the participant has...selects everything. But I will get that and give that to you.

SENATOR STUHR: Okay, thank you very much. I know that we certainly appreciate the outline, the graphs, I think are much...you know, they are very helpful. So it's very well done. Thank you.

CAROL KONTOR: Great. Thank you for your time, and just in closing, I appreciate how much information you all have to absorb in a relatively short time. where we're dealing with this every day all day. So I please encourage you to look at me as a resource, and any of this, as it needs any further explanation or whatever, so thank you.

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SENATOR STUHR: Okay, thank you. Thank you very much. Okay, Anna. We will now have the report from NPERS annual report.

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ANNA SULLIVAN: (Exhibits 2-5) I did bring a few extra copies, in case someone did not bring their reports. Does everyone have their...I sent them over last week.

SENATOR STUHR: I didn't even bring mine; how about the rest of you?

SENATOR SYNOWIECKI: I left mine in the office.

SENATOR STUHR: But I do have one here.

ANNA SULLIVAN: We sent over eight, I think, last week, so.

SENATOR STUHR: Yes. And we did distribute them which might have been a mistake, actually.

ANNA SULLIVAN: Okay. I might collect those back, if that would be all right?

SENATOR STUHR: Sure. Yes, because we do all have a copy.

ANNA SULLIVAN: Okay. Senator Stuhr and members of the Retirement Committee, for the record my name is Anna Sullivan; that's S-u-l-l-i-v-a-n, Director of the Nebraska Public Employees' Retirement Systems. And it is a pleasure to be here and to give you a little snapshot, I guess, of the work that we're doing in the Retirement Office. Unlike the work that Carol is doing in investing, we're administering; we're paying out those benefits and working with the plan members on a direct basis. It's very interesting work. If you think of the things that you may have a passion for in your own personal life, I have to tell you, just from my own perspective, I have worked for the Retirement Systems, it will be 29 years this year--not all those years as the director, obviously. Kind of grew up there. But it is a passion of mine. I have enjoyed very

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much working with plan members. And there is nothing more fun, I think, than to see someone come in and get ready to retire, and they are looking forward to a time of relaxation. They are looking forward to spending some time with their grandkids, maybe a little golfing, and so it is something that is easy to get really wrapped up in. Our inside page, you see a snapshot of our board. We did grow this year. If you recall we added a State Patrol officer, Glen Elwell. And we also added another school member, Mark Shepard, who is a business manager from Fremont Public Schools. And Carol, of course, is an ex officio member and a delight to have on our board. Charles Peters has been our chairman. He has actually...it's elected within the body, unlike the council where the chairman is appointed. In this case our board elects a chairperson. Charles has done a great job and worked in the investment business himself for many years. I'll take you...I'll kind of skip past mission statement, agency goals; I think you can read those. You see the arrangement of our office on page 5, just the various divisions of our office. You know, we do have to spend a lot of time processing, but we certainly have our own data services and our information systems, accounting departments. We're a little bit larger than Carol. We're sitting at 49 people because of the services that we provide. And I might mention, as I get through this just a bit. When we talk about services provided, just how we're trying to maintain the current number of staff and not grow, despite the fact that we have baby boomers that are descending upon us. Everybody hears about the baby boomers getting ready to retire, and we've seen our workload increase because of that. But we're trying to keep our staff at a stable number and use technology to serve those members. Pages 6 and 7 give you a summary of our accomplishments for the year. Number one really has been our project, our technology project. On January 1, 2004, we implemented the last phase of our project, and that was the benefit payment function. And so now today everything is integrated, from the time that a person joins the plan, all of their membership data, all of their contributions flow in, all of the earnings in their account. And then at retirement all of their service credit history, all their salary history is automatically available for the calculation of their benefit. We do have to have people. It's not done by the press of a button, but we do have to have people monitor and review, but the technology project

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has been really one of the best things that we've done in implementing an integrated system for the administration of our benefits. We also work really hard at customer service. And I'm delighted to say that the turnaround time for a person retiring today and how long it takes them to get their first check has increased...the turnaround is so much shorter and I've got a statistic for you. If you would bear with just a moment, I'll take you back to the percentage on the service. And that is on page 18, just real quickly. We are now able to pay 52 percent of our payments, retirement claims within 30 days. And some of those requests can be very complicated. I'm just so delighted. And a lot of that is attributed to our technology. Last year, in '03, we were able to pay 33 percent of our payments within 30 days. So you can see how much that's improved our turnaround time, and so we're pleased with that. The other thing that we're very committed to, and that is making sure that our plans are in good standing with the IRS. We've worked this year; we're very pleased. I think I've mentioned to you that our plans have all been now requalified by the IRS, which is a significant, significant issue for the qualification of a plan. Keep those dollars that Carol and her team are working so hard to earn, to keep those dollars tax sheltered, tax deferred, until a person actually receives payment. That qualification is just huge. We've worked very hard this year to continue statewide programs on training with our employers. We do, in June, every year we do school training sessions that have just been...they just love them. We have great return...a great number of attendees this year, helping those school bookkeepers and those people that work with retirement in each individual school to learn more about their obligations and the statutes that govern the plan. But that doesn't exclude the work that we've done with the county clerks and with state agencies. We're working right now on a focus to improve our training for state agencies, the personnel reps. So we're glad of that. One of the things we started this year is what we call Retirement 101 sessions. That's number six on the bottom of page 6. And these are just short little sessions. We've gone into some state agencies. We started with the Department of Ag, and we just did an hour-long session on just the basics of their pension plan, to really try to get them involved because I don't know about you, but people tend to procrastinate when they think about their retirement until they get older. We'd like to get 25 and

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30-year-olds into our sessions and so these...coming to them, coming to the agency and setting up a workshop, we get a much higher percentage and we try to get them involved and interested in their retirement plan. So I will go to the goals for our action plan for 2005 on pages 8 and 9. We still have some PIONEER initiatives, but our...one of the focuses that I want to just highlight right here is the work to continue to improve our service to our plan members to facilitate communication with the various representatives of those plan members, and to maintain positive relationships with you, with government offices, and policy makers. Sometimes there can be misunderstandings. Sometimes we can miscommunicate, and that is not acceptable to me. I work very hard to make sure that we understand one another; that you feel free to call me at any time if you have an issue that if you have questions about what we're doing; to make a visit. I would love to have you come to see our office and to see a demonstration of our information system. I know right now your lives are just swamped with legislative work, but maybe even during the interim when you are in town, to have you stop by and see what we do. Our goals this year, we do have some...a wrap-up on some things with our PIONEER system; PIONEER--Public Information Of Nebraska for an Efficient and Effective Retirement; that's the acronym but we kind of thought that was suitable for Nebraska. We've got some legislative changes I know we'll be addressing. We want to work on improving our financial audits and continue our educational focus. We do have some rules and regs. There is a list there you'll see of items that we need to update. Because generally what happens is statute changes, and so then our rules and regs become outdated, and so we'll need to update some of those. Here is PIONEER on pages 10 and 11. It gives you the definition of PIONEER and a little bit of background on the system, the planning for the system, and the success that we've enjoyed with the implementation of this integrated information system. And I just have to say to you...I was at a conference of state retirement directors like myself in Washington in February...and I was amazed at how far we are with our information technology and how far behind many of them are. They are on old mainframe systems that are...require a lot of manual intervention. They probably have computers, PCs, a personal computer on their desk, but it's that integration between their database and their PC that is so important. I have some that are interested in coming to visit. The

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South Dakota director said, Anna, I want to come see your system, and there are others. So I feel very pleased that the accomplishment that we've had with our information system. The 12 and 13, the listing of the legislation. You guys keep us busy. You can see every year we have legislation, and my goodness, sometimes there is necessary clean-up, but other times they're plan changes, and it's been busy since I've been around. Here is some information on pages 14 and 15 on the assets. Carol has taken you through obviously very good information on our assets. I wanted you to see the comparison of '03 versus '04. This is on market value. Now we show the school, judges, and patrol, as of June 30. That's the plan yearend for those three plans, and then the state and county and deferred comp are on a calendar-year basis. And so you can kind of see what we're dealing with as far as just pension plan assets. And we've got a summary here of market returns and the impact that has had on funding. I think that's pretty important. I would like to just point out to you on page 17 some of the work that we do in the office and counting the number of contacts, but also you see a total membership at the top of page 17. We're very close to a 98,000 people now. That's in counting our retirees and our actives and inactives. Inactives are those people who quit and leave their money and wait until they are probably not eligible for retirement, say, they are 45, and they just leave their account sit until they reach retirement age. We do have quite a few that do that, and that's good. That's good, rather than taking it out and buying themselves something with it, they keep it for retirement. But you see the numbers. We're dealing with a lot of people. And then our activity as far as enrollments, refunds, retirements, I looked at our retirement school plan particularly; in 2004, we had 971 school employees retire. For 2003 we had 818. So we're starting to see those boomers, the fact that we've got a bulge--members at a certain age group that are going to be retiring--and we're starting to see that in our activity numbers and how many people we're serving. Also on page 18 you'll see just phone calls that we do have now through our phone system; through the Department of Communications we're able to track all of the phone calls that come in, count those, and we do keep track of all of our office visitors and mail. All of that is electronically counted, which is nice; it's not somebody just keeping a tab on a pad on their desk. But you can see the volume that we

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are addressing in our members services, just the numbers of documents we handle, numbers of phone calls, et cetera. And, again, I mentioned the service delivery results; we're very pleased with that. Pages 19 and 20 deal with our budget. And I know that Senator Price and Senator Synowiecki are probably pretty familiar with our budget being on the...and Senator Pederson...being on the Appropriations Committee. Our budget has a program, 041 and 042, there at the top of page 19. That is our operating...that isn't addressing the funding that we've talked about, that's been talked about from an actuarial viewpoint on our three defined benefit plans, but we did have an increase in our budget because of the technology project. And I think I have mentioned to you we're using the master lease program, which is described there in the third paragraph of page 19, and how we're financing the program, the information system, paying for it over time. It will be completed by 2011. We have had it on a seven-year schedule, and we have four master lease payment agreements in place, so that we're paying for it over time, spreading the cost over membership. But also we did have a cost analysis done, and we were advised that it was better to borrow the money at a lower rate and keep the asset invested at a higher rate than just to spend cash for the implementation of the system. So I think this is working quite well. There is a little bit about our staff there. We have 49 employees on staff--four key administrative staff and five who are managers/supervisors of other staff, and we have six on our technology project, I should say our IT team, that will be supporting our project going forward. The retirement funding is outlined there on page 20, and this is for the school, judges, and patrol--defined benefit plans, the additional contributions, but also the annual contributions that are made but based on statute. And we've outlined what those annual contributions and how they are determined based on law. And a summary, a quick summary, of the board policies. I did not include all of the policies, but the board has a detailed duties and governance and code of conduct that I could certainly make available to you if you would like to see that. I don't want to leave out pages 22 and 23. This is where our educational program...and I have to just tell you this is something that is near and dear to my heart. I started it in the mid-80s, went out and started doing seminars, all-day seminars for our plan members. And as you can see, our preretirement

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planning seminars, we had...we reached over 2,000 employees this year, holding 46 meetings across the state. And the personal planning programs are just for state and county members, to help them with their investing, to help them...we don't give them investment advice, but we certainly try to teach them about investment decision making. And the disappointment to me is that we only had 188 people attend those sessions. They are a one-day commitment; it does take time. We would like to be able to generate more interest in the under-50 crowd, to think about their retirement, and that is a challenge...ongoing challenge. So then what we wind up with is our employer education programs on page 24, I think I've mentioned to you. And then just a summary of the plans at the end of the page...at the end of the report, excuse me. And information, just a quick summary about our annual plan audits. And then...because I know you are trying to quit here shortly...I do have some brochures for you; actually two things here. I have a newsletter, if I could ask the page to assist me, a newsletter for the state and county plans; and a newsletter that was just printed for our school, judges, and patrol plan members. You can kind of see what we send out to them. Then also here's a seminar registration, and that's another thing that you would be more than welcome to attend is one of our seminars to see how...what we do at a retirement planning seminar and what employees are able to learn about not only their pension, but we do bring in regular...we talk about regular planning and bring in just that adjustment to retirement that many employees struggle with. Now the other items that you were given today is a copy of the Ameritas annual report. This report was presented to the retirement board on Monday. As you know, maybe I'll say this though for the record, Ameritas Life Insurance Company, a major employer here in Lincoln, Nebraska, has provided the accounting and recordkeeping for the state and county and deferred compensation programs. Deferred comp is relatively new because when the Investment Council took that over in '97, the recordkeeping agreement with Ameritas was expanded to include deferred comp. But the state and county goes back to 1964, with Ameritas; at that time they were known as Bankers Life, for those of you that are familiar with their history. But I would encourage you to take a look at the Ameritas annual report. It does give you a comprehensive breakdown of the activity, both for the defined contribution and the

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cash balance programs. And it talks about the activity, the work that Ameritas does for us. There is a small fee that every plan member pays out of their account for the recordkeeping services, but they are able to provide something that we have not been able to provide, especially with the defined contribution plans, where they actually price the accounts every night when the market closes, and that is a feature that we, in our information system, did not want to build nor did we think it was necessary to duplicate. So if you have questions on the Ameritas report, please feel free to pass them along to me. And if there is anything on the material I've just handed you, please feel free. I would be happy to try to answer any questions.

SENATOR STUHR: Okay. Are there any questions for Anna? I just had one question in regards to the preretirement planning seminars.

ANNA SULLIVAN: Uh-huh.

SENATOR STUHR: And you noted that there were 2,000 people that had attended.

ANNA SULLIVAN: Right.

SENATOR STUHR: And then we look at the active membership. Do you know what percentage of those that are over 50 actually do attend those seminars?

ANNA SULLIVAN: We did...when you look at just one year, that's just one year's worth, but we went back and looked. We started the program in 1987. At one time I went back and counted how many of those people retiring had ever attended a seminar through one year of their last ten before they retired. And we were well over 60 percent of them, of the preretirement that had actually attended a seminar before they retired in one of the years that we offered it. Some people actually attended twice, but I was pleased to see over 60 percent. Now that number may have gone up. It's been a few years since I looked at that cumulative total. So one year's number, we don't expect everybody to attend one year because they have a good number of years prior to retirement that they have an opportunity to attend.

SENATOR STUHR: Um-hum. Okay. Are there any other

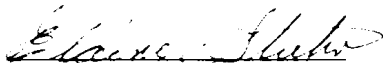
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questions? Thank you very much.

ANNA SULLIVAN: Thank you.

SENATOR STUHR: Both very informative; very helpful. So I believe that concludes the reports for today then, and thank those for attending.


Chairperson


Committee Clerk